

REPORT OF EXAMINATION
OF THE
WESTWARD INSURANCE COMPANY
AS OF
DECEMBER 31, 2003

Filed April 21, 2005

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Los Angeles, California
December 28, 2004

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

WESTWARD INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 4040 Paramount Boulevard, Lakewood, California 90712.

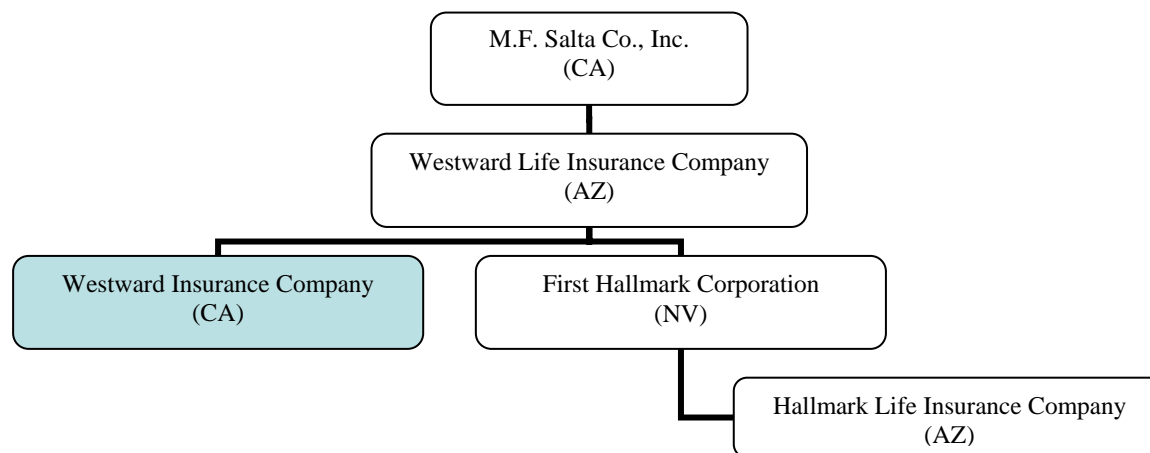
SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history, fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Westward Life Insurance Company. The Company is a member of an insurance holding company system of which Michelle F. Salta is the ultimate controlling person. The following organizational chart reflects the Company's position within the holding company system.



Michelle F. Salta owns 31.20% of the common stock of Westward Life Insurance Company and owns 51.06% of the common stock of M.F. Salta Company, Inc., which in turn owns 58.15% of Westward Life Insurance Company.

Management of the Company is vested in a four-member board of directors. The directors and principal officers duly elected and serving as of December 31, 2003 are as follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michelle F. Salta Long Beach, California	President M.F. Salta Company, Inc.
James Smith Seal Beach, California	Vice President and Secretary M.F. Salta Company, Inc.
Dennis Fujioka Mission Viejo, California	Treasurer Westward Life Insurance Company
David Yoshioka Calabasas, California	Director Westward Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Michelle F. Salta	President
James Smith	Secretary
Dennis Fujioka	Treasurer

Management Agreements

Management Service Agreement: The Company has a management service agreement with its ultimate parent, M.F. Salta Company, Inc. (Salta). Salta provides management services including personnel, underwriting, investments, actuarial studies, claims services, accounting and data processing. The Company reimburses Salta for actual costs incurred. This management service agreement has been effective since August 1987; however, the agreement has not been submitted to the California Department of Insurance (CDI) for approval as required by the California Insurance Code (CIC) Section 1215.5 (b)(4).

Expense Allocation Agreement: The Company has an expense allocation agreement with its parent, Westward Life Insurance Company (WLIC). Pursuant to the agreement, the Company reimburses WLIC for 10% of certain home office expenses including expenses associated with office space, office equipment, and utilities. The agreement has been effective since August 16, 1996. However, this expense allocation agreement has not been submitted to CDI for approval as required by CIC Section 1215.5(b)(4).

It is recommended that the Company submit both the management service agreement and expense allocation agreement to the CDI for approval pursuant to CIC Section 1215.5(b)(4).

CORPORATE RECORDS

The Company is not in compliance with California Insurance Code (CIC) Section 1201. The Company's minutes only provided general statements pertaining to its investments, but failed to include the specific references to amounts, facts and the value of the securities as required under CIC Section 1201.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of California to write automobile insurance. The Company writes commercial auto physical damage and automobile warranty coverage to affiliated dealerships. During 2003, the total premium written was \$128,456 from three dealerships. All business was placed through the Company's affiliated general agent.

Since 2001, the affiliated automobile dealerships that generated the Company's business were sold and at the beginning of 2004, the last three remaining dealerships were sold. The Company ceased writing any business from these sources. On September 2003, the Company filed an amended certificate of authority to add fire, liability, burglary and miscellaneous lines of business. On August 31, 2004, the Company withdrew the application for amendment from the California Department of Insurance. The Company's management indicated that the Company is currently discontinuing its insurance operations and has no intentions of seeking new insurance business. The business on the books will be in run-off, and is expected to expire within 3 years.

REINSURANCE

The Company had no reinsurance during the period covered by this examination.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Underwriting and Investment Exhibit for the Year Ended December 31, 2003

Reconciliation of Surplus as Regards Policyholders
from December 31, 2000 through December 31, 2003

Statement of Financial Condition
as of December 31, 2003

<u>Assets</u>	Ledger and Nonledger <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 3,067,701	\$ 3,067,701	(1)
Stocks:			
Preferred stocks	941,347	941,347	(1)
Common stocks	221,840	221,840	(1)
Cash and short-term investments	94,694	94,694	(1)
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	6,290	6,290	
Interest, dividends, and real estate income due and accrued	<u>26,078</u>	<u>26,078</u>	
Total assets	<u>\$ 4,357,950</u>	<u>\$ 4,357,950</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Losses		\$ 57,449	(2)
Loss adjustment expenses		3,145	(2)
Other expenses		34,596	
Taxes, licenses and fees		34,816	
Federal income taxes		10,818	
Net deferred tax liability		43,966	
Unearned premiums		30,375	
Payable to parent, subsidiaries and affiliates		<u>13,100</u>	
Total liabilities		228,265	
Common capital stock	\$ 1,000,000		
Gross paid-in and contributed surplus	450,000		
Unassigned funds (surplus)	<u>2,679,685</u>		
Surplus as regards policyholders		<u>4,129,685</u>	
Total liabilities, surplus and other funds		<u>\$ 4,357,950</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2003

Statement of Income

Underwriting Income

Premiums earned		\$ 133,924
Deductions:		
Losses incurred	\$ 28,501	
Loss expense incurred	(950)	
Other underwriting expenses incurred	<u>273,744</u>	
Total underwriting deductions		<u>301,295</u>
Net underwriting loss		(167,371)

Investment Income

Net investment income earned	\$ 230,610	
Net realized capital gains	<u>133,304</u>	
Net investment gain		<u>363,914</u>
Net income before federal income taxes		196,543
Federal income taxes incurred		<u>35,730</u>
Net income		<u>\$ 160,813</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002		\$ 3,955,408
Net income	\$ 160,813	
Net unrealized capital gains	15,310	
Change in net deferred income tax	<u>(1,846)</u>	
Change in surplus as regards policyholders		<u>174,277</u>
Surplus as regards policyholders, December 31, 2003		<u>\$ 4,129,685</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2000 through December 31, 2003

Surplus as regards policyholders, December 31, 2000, per Examination	\$ 3,734,265
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	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 389,354	\$
Net unrealized capital gains	50,032	
Change in net deferred income tax	_____	43,966
Totals	\$ 439,386	\$ 43,966

Net increase in surplus as regards policyholders	395,420
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Surplus as regards policyholders, December 31, 2003, per Examination	\$ 4,129,685
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COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds, Stocks and Short-Term Investments

The Company's bonds, stocks and short-term investments are being held by Farmers and Merchants Trust Company of Long Beach under a custodial agreement effective February 1990. The custodial agreement has not been submitted to the California Department of Insurance (CDI) for approval as required by California Insurance Code (CIC) Section 1104.9(d). It is recommended that the Company submit its custodial agreement to the CDI for approval.

(2) Loss and Loss Adjustment Expenses

Based on a review of the Company's loss and loss adjustment expense reserves as of December 31, 2003, as developed through September 30, 2004, and a review of the Company's independent actuary's report, the reserves as reported by the Company were deemed reasonable and have been accepted for purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Controls – Management Agreements (Page 3): It is recommended that the Company submit both the management service agreement and expense allocation agreement to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Corporate Records (Page 4): It is recommended that the Company comply with CIC Section 1201.

Comments on Financial Statement Items – Bonds, Stocks and Short-Term Investment (Page 9): It is recommended that the Company submit its custodial agreement to the CDI for approval.

Previous Report of Examination

None

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/
Irene Song, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California